

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 98-623-E - ORDER NO. 1999-38
JANUARY 19, 1999

IN RE: Review of South Carolina Electric & Gas)	ORDER	✓ MR
Company's Electric Earnings for the Period)	DENYING	
Ended September 30, 1998.)	RECONSIDERATION	

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Petition for Reconsideration of our Order No. 98-987 filed by South Carolina Electric & Gas Company (SCE&G or the Company).

SCE&G petitions for reconsideration of our Order, which reduced electric rates on a prospective basis by \$22,699,000. The Company notes that, since the issuance of Order No. 96-15 establishing electric rates that would allow the Company to earn a return on common equity of 12.0%, the established rates failed to yield the authorized return for ten (10) consecutive quarters. SCE&G states that during the months of June through September 1998, electric sales to retail customers in the Company's service area were greater than normal because of abnormal weather. According to SCE&G, cooling degree days during this period increased 77% over the previous summer months. Because of this fact, the Company notes that margin revenue was enormously impacted, and that, had it not been for the abnormal weather conditions during the summer of 1998, SCE&G's return on common equity would have been 11.58%.

Accordingly, the Company objects to the Commission's Order No. 98-987 requiring the Company to reduce its retail electric rates, based on three separate reasons. First, SCE&G states that the Commission did not consider the two and one-half years that its earned returns were below the authorized return. Second, the Company states its belief that the Commission failed to consider the severe and temporary effects of abnormal weather when it ordered the rate reduction. Finally, SCE&G alleges that Order No. 98-987 does not contain sufficient factual findings to support the rate reduction of \$22,699,000 annually. We hold that these reasons are unavailing, and that the Petition must be denied.

First, this Commission certainly did consider the two and one-half years that SCE&G's earned returns were below the authorized return. The problem is that the months of June through September 1998 saw a very significant increase in revenues for the Company, leading to an overearnings situation. We note that during that period, the Company earned a 13.04% rate of return on equity, as opposed to its authorized rate of 12.00%. We believe that the overearnings outweighed the significance of the aforementioned two and one-half year period in which SCE&G's returns were below the authorized return on equity of 12.00%. We held in Order No. 98-987, and still hold, that the magnitude of the overearnings in this situation justified the prospective rate reduction in order to bring the Company's earnings back within its authorized range.

Second, as stated above, in taking the action that we took in Order No. 98-987, we were not unmindful of the fact that the weather was a factor in the increase in revenues and resultant overearnings. However, this Commission has never developed a specific

methodology or formula for consideration of the effects of abnormal weather on the earnings of an electrical utility. Historically, we have not considered the weather when setting rates in electric rate cases. Although we have no desire to institute a policy of weather normalization in future rate cases at this time, upon further consideration, we do believe that this Commission should be able to consider non-recurring events, such as abnormal weather, in its review of financial filings by electrical utilities. Further, in order to effectuate our ability to consider abnormal weather as a factor, we hereby instruct the Commission Staff to set a generic proceeding to determine the appropriate methodology for accomplishing this end. Said hearing shall address what normal and/or abnormal weather is, and how it might be applied in the review of financial filings by electrical utilities.

Again, however, since no such “weather methodology” presently exists for this Commission, we have no appropriate way of examining the effects of the weather on the Company’s earnings in this case. Therefore, SCE&G’s second ground for reconsideration is without merit.

Third, SCE&G alleges that our factual findings in Order No. 98-987 were insufficient to support the prospective rate reduction ordered. This ground is also unavailing. S.C. Code Ann. Section 58-27-920 (1976) states that the Commission may, after a preliminary investigation and upon such evidence as to it shall seem sufficient, order any electrical utility to put into effect such a schedule of rates as shall be deemed fair and reasonable. (emphasis added) Our Order No. 98-987 specifically outlined the evidence in this case that “seemed sufficient,” i.e., that SCE&G was earning a 13.04%

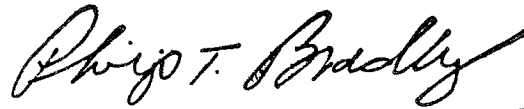
rate of return on equity instead of its authorized 12% for the twelve months ending September 30, 1998, and that it would take a calculated rate reduction of \$22,699,000 to reduce the earnings of the Company back to the authorized rate. We believe that these findings of fact are clear enough to support our action in reducing the Company's rates prospectively, based on the statutory language given in S.C. Code Ann. Section 58-27-920 (1976).

We would also note that we ordered the Commission Staff in Order No. 98-987 to review SCE&G's earnings for the twelve month period ending September 30, 1998 and report any other potential ratepayer savings to this Commission within thirty days of the date of that Order. Staff filed the required report, which indicates that no other potential ratepayer savings are indicated. We therefore hold that no further action is required with regard to the Company's financial report for the 12 months ended September 30, 1998, and that SCE&G's authorized rate of return on equity shall remain at 12.00%.

In addition, we hereby order SCE&G to continue filing its quarterly financial reports based on twelve months of data 75 days after the last day of the quarter. We believe that it is essential to our role as regulators that we continue to monitor the earnings of all electrical utilities, including SCE&G.

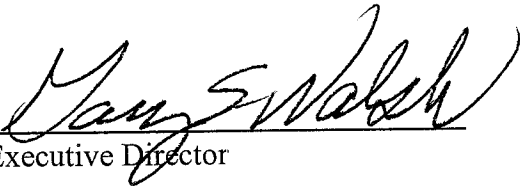
This Order shall remain in full force and effect until further Order of the
Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)